

Village of Stockbridge, Michigan

Financial Statements
And Independent Auditors' Report

Year Ended February 29, 2008

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Independent Auditors' Report

Members of the Village Council
Village of Stockbridge
Stockbridge, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village of Stockbridge as of and for the year ended February 29, 2008, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village of Stockbridge as of February 29, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The budgetary comparison information on page 23 is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the Village of Stockbridge's basic financial statements. The combining and individual fund financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements of the Village of Stockbridge. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Willis & Jurasek PC
Willis & Jurasek, P.C.

October 1, 2008

Village of Stockbridge
Management's Discussion and Analysis
Year Ended February 29, 2008

As management of the **Village of Stockbridge**, we offer readers of the Village's financial statements this narrative overview and analysis of the financial activities of the Village for the year ended February 29, 2008.

The Village as a Whole

The Village's net assets are stable. The Village continues to provide primary services to our residents.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Village's basic financial statements. The Village's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Village's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Village's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Village is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions of the Village that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Village include legislative, general government, public safety, public works and community and economic development; the business-type activities are water and sewer.

The government-wide financial statements can be found on pages 1-3 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Village, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Village can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Village of Stockbridge
Management's Discussion and Analysis
Year Ended February 29, 2008

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Village maintains eight individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general, major street and local street, each of which are considered to be major funds. Data from the other five governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

The Village adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

The basic governmental fund financial statements can be found on pages 4-7 of this report.

Proprietary funds. The Village maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Village uses enterprise funds to account for its sanitary sewer and water distribution. *Internal service funds* account for operations that provide services for equipment rental and accumulate and allocate costs internally among the Village's various functions. Because this service predominantly benefits governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for two major enterprise funds; water, and sewer.

The basic proprietary fund financial statements can be found on pages 8-10 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 1-22 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain other information. This includes combining fund financial statements and schedules, which can be found on pages 24-29 of this report.

Village of Stockbridge
Management's Discussion and Analysis
Year Ended February 29, 2008

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Village of Stockbridge, assets exceeded liabilities by \$4,519,837 at the close of the most recent fiscal year.

By far the largest portion of the Village's net assets, about eighty-seven percent (87%), reflects its investment in capital assets (e.g., land, buildings, vehicles, equipment and infrastructure); less any related debt used to acquire those assets that is still outstanding. The Village uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the Village's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

In a condensed format, the table below shows net assets as of the current date:

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Current assets	\$ 485,425	\$ 559,656	\$ 170,523	\$ 283,166
Non-current assets	<u>1,620,828</u>	<u>1,646,190</u>	<u>5,558,088</u>	<u>5,806,047</u>
Total assets	<u>2,106,253</u>	<u>2,205,846</u>	<u>5,728,611</u>	<u>6,089,213</u>
Current liabilities	27,297	96,806	121,862	405,693
Non-current liabilities	<u>190,612</u>	<u>177,843</u>	<u>3,038,445</u>	<u>2,932,381</u>
Total liabilities	<u>217,909</u>	<u>274,649</u>	<u>3,160,307</u>	<u>3,338,074</u>
Net assets:				
Invested in capital assets -				
net of related debt	1,428,179	1,423,858	2,485,593	2,637,079
Restricted	-	-	-	-
Unrestricted	<u>458,665</u>	<u>507,339</u>	<u>147,300</u>	<u>114,060</u>
Total net assets	<u>\$1,886,844</u>	<u>\$1,931,197</u>	<u>\$2,632,893</u>	<u>\$2,751,139</u>

Village of Stockbridge
Management's Discussion and Analysis
Year Ended February 29, 2008

The following table shows the changes in net assets for the applicable fiscal year.

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Program Revenues				
Charges for services	\$ 90,494	\$ 73,335	\$ 535,232	\$ 510,425
Operating grants	77,007	77,485	-	-
General revenues				
Property taxes	340,132	325,096	-	-
State-shared revenue	118,947	117,124	-	-
Interest income	10,185	12,713	2,369	2,940
Other	40,024	61,892	54,750	28,570
Transfers	<u>(2,369)</u>	<u>31,658</u>	<u>16,500</u>	<u>15,000</u>
Total revenues	<u>674,420</u>	<u>699,303</u>	<u>608,851</u>	<u>556,935</u>
Program expenses:				
Legislative	46,584	55,637	-	-
General government	220,454	207,622	-	-
Public safety	214,887	147,651	-	-
Public works	199,927	174,746	-	-
Culture and recreation	20,120	13,787	-	-
Other	16,030	38,436	-	-
Interest	(75)	11,032	-	-
Business-type	<u>-</u>	<u>-</u>	<u>726,996</u>	<u>560,851</u>
Total expenses	<u>717,927</u>	<u>649,911</u>	<u>726,996</u>	<u>560,851</u>
Change in net assets	\$ <u>(43,507)</u>	\$ <u>49,392</u>	\$ <u>(118,145)</u>	\$ <u>(3,916)</u>

The Village's net assets continue to remain healthy.

Governmental Activities

The Village total revenues have increased slightly due to an increase in charges for services and property taxes. In the meantime, we are getting a fair rate of return on our investments and every effort is being made to carefully budget our available funds and maintain a stable cash flow.

Business-Type Activities

The Village's business-type activities consist of the Water and Sewer Enterprise Funds. The Village provides water and sewer to most all of the Village residents.

In summer and fall of 2008, the Village will complete Phase II of the Drinking Water Revolving Fund water improvements. This project is anticipated to cost between \$500,000 and \$600,000 and is funded by a low-interest State loan.

Village of Stockbridge
Management's Discussion and Analysis
Year Ended February 29, 2008

General Fund Budgetary Highlights

During the 2007/2008 fiscal year, the Village experienced multiple, prolonged interruptions in management resulting in cursory budget oversight. As a result, only one amendment was made to the General Fund prior to the final year-end amendment. The Village Council is responsible for the management of Village funds and must keep in place management processes which ensure accurate and timely budget administration including quarterly budget amendments which are in place for the coming year.

Capital Asset and Debt Administration

At the end of the 2007/2008 fiscal year, the Village has a total investment in capital assets for its governmental and business-type activities of \$7,178,916, which is made up of a broad range of capital assets, including buildings, water and sewer structures, both above and below ground, and significant investments in streets.

Major capital asset events during the current fiscal year included the following:

- Work on water and sewer system improvements of \$365,523.
- Additions to the internal service fund equipment of \$35,581.

The following table summarizes the fixed assets of the Village as of the current year-end:

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Land	\$ 304,778	\$ 304,778	\$ 79,111	\$ 79,111
Buildings and improvements	78,244	78,244	-	-
Equipment and vehicles	352,755	322,189	18,686	18,686
Infrastructure	1,730,098	1,730,098	-	-
Distribution and collection systems	-	-	7,435,887	7,070,364
Construction in progress	-	-	-	365,523
Accumulated depreciation	<u>(844,157)</u>	<u>(789,119)</u>	<u>(1,975,597)</u>	<u>(1,727,637)</u>
Net capital assets	\$ <u>1,620,827</u>	\$ <u>1,646,190</u>	\$ <u>5,558,087</u>	\$ <u>5,806,047</u>

Most of the indebtedness is chargeable to the business-type activities.

The following table summarizes the debt outstanding at the applicable year-end:

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Revenue bonds	\$ -	\$ -	\$3,038,445	\$3,132,381
General obligation bonds	<u>145,000</u>	<u>170,000</u>	-	-
Total bonds	\$ <u>145,000</u>	\$ <u>170,000</u>	\$ <u>3,038,445</u>	\$ <u>3,132,381</u>

The Village's total bonded debt increased by \$225,000.

Village of Stockbridge
Management's Discussion and Analysis
Year Ended February 29, 2008

Economic Factors and Next Year's Budgets and Rates

The Village has adopted a balanced General Fund budget for the fiscal year 2008-2009. For the first time in recent history, the budget predicts lower tax revenues due to a reduction in the Village's taxable value. Enterprise funds can also expect to experience slightly lower revenues as single family home vacancies in the Village are approaching 10%. Information presented by the Ingham County Clerk advises that larger tax revenue reductions should be expected for fiscal year 2009-2010 due to the continuing decline in the housing market. No water and/or sewer rate increases are anticipated for the 2008-2009 year.

Contacting the Village Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Village's finances and to show the Village's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Village office.

Village of Stockbridge
Statement of Net Assets
February 29, 2008

	<u>Primary Government</u>			<u>Component Unit</u>
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	<u>Downtown Development Authority</u>
Assets:				
Cash and investments	\$ 385,088	\$ 88,737	\$ 473,825	\$ 258,766
Receivables	58,837	123,286	182,123	231,551
Internal balances	40,000	(40,000)	-	-
Capital assets, net:				
Not being depreciated	304,778	79,111	383,889	-
Being depreciated	<u>1,316,050</u>	<u>5,478,977</u>	<u>6,795,027</u>	<u>-</u>
Total assets	<u>2,304,753</u>	<u>5,730,111</u>	<u>7,834,864</u>	<u>490,317</u>
Liabilities:				
Accounts payable	11,162	20,534	31,696	-
Accrued expenses	13,533	4,189	17,722	200,707
Accrued interest	1,962	33,950	35,912	-
Deferred revenue	640	-	640	-
Noncurrent liabilities:				
Due within one year	46,806	205,000	251,806	-
Due in more than one year	<u>143,806</u>	<u>2,833,445</u>	<u>2,977,251</u>	<u>6,826</u>
Total liabilities	<u>217,909</u>	<u>3,097,118</u>	<u>3,315,027</u>	<u>207,533</u>
Net Assets:				
Invested in capital assets, net of related debt	1,428,179	2,485,693	3,913,872	-
Unrestricted	<u>458,665</u>	<u>147,300</u>	<u>605,965</u>	<u>282,784</u>
Total net assets	<u>\$ 1,886,844</u>	<u>\$ 2,632,993</u>	<u>\$ 4,519,837</u>	<u>\$ 282,784</u>

See Notes to Financial Statements.

Village of Stockbridge
Statement of Activities
Year Ended February 29, 2008

<u>Functions/Programs</u>	<u>Program Revenues</u>			<u>Net (Expenses)</u> <u>Revenues</u>
	<u>Expenses</u>	<u>Charges</u> <u>for Services</u>	<u>Operating</u> <u>Grants and</u> <u>Contributions</u>	
Primary Government				
Governmental activities:				
Legislative	\$ 46,584	\$ -	\$ -	\$ (46,584)
General government	220,454	47,100	-	(173,354)
Public safety	214,887	1,815	-	(213,072)
Public works	199,927	41,579	77,007	(81,341)
Culture and recreation	20,120	-	-	(20,120)
Other	16,530	-	-	(16,530)
Interest on long-term debt	<u>(9,204)</u>	<u>-</u>	<u>-</u>	<u>9,204</u>
Total governmental activities	<u>727,706</u>	<u>90,494</u>	<u>77,007</u>	<u>(560,205)</u>
Business-type activities:				
Water	211,862	183,972	-	(27,890)
Sewer	512,185	350,575	-	(161,610)
Building department	<u>2,949</u>	<u>685</u>	<u>-</u>	<u>(2,264)</u>
Total business-type activities	<u>726,996</u>	<u>535,232</u>	<u>-</u>	<u>(191,764)</u>
Total primary government:	<u>\$ 1,454,702</u>	<u>\$ 625,726</u>	<u>\$ 77,007</u>	<u>\$ (751,969)</u>
Component Unit				
Downtown Development Authority	<u>\$ 81,037</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (81,037)</u>

continued..

Village of Stockbridge,
Statement of Activities (Continued)
Year Ended February 29, 2008

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Downtown Development Authority
Changes in Net Assets:				
Net (expenses) revenues	\$ (560,205)	\$ (181,764)	\$ (751,969)	\$ (81,037)
General revenues:				
Property taxes	340,132	-	340,132	265,378
Unrestricted grants and contributions	118,947	-	118,947	-
Interest and investment earnings	9,316	2,369	11,685	1,511
Other revenues	40,024	54,750	94,774	4,470
Transfers - internal activities	33,279	16,500	49,779	(49,779)
Total general revenues and transfers	541,698	73,619	615,317	221,580
Changes in Net Assets	(18,507)	(118,145)	(136,652)	140,543
Net Assets - Beginning of Year	1,930,351	2,751,138	4,681,489	142,241
Net Assets - End of Year	\$ 1,911,844	\$ 2,632,993	\$ 4,544,837	\$ 282,784

See Notes to Financial Statements.

Village of Stockbridge
Balance Sheet
Governmental Funds
February 29, 2008

	General	Major Street	Local Street	Other Nonmajor Governmental Funds	Total
Assets					
Cash	\$ 114,037	\$ 3,887	\$ 141,528	\$ 111,057	\$ 370,509
Receivables:					
Accounts receivable	9,239	-	-	-	9,239
Due from other governmental units	35,763	9,866	3,969	-	49,598
Due from other funds	<u>40,000</u>	-	-	-	<u>40,000</u>
Total assets	<u>\$ 199,039</u>	<u>\$ 13,753</u>	<u>\$ 145,497</u>	<u>\$ 111,057</u>	<u>\$ 469,346</u>
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 8,179	\$ 342	\$ 342	\$ 362	\$ 9,225
Salaries payable	11,349	-	-	-	11,349
Accrued expenditures	2,184	-	-	-	2,184
Deferred revenue	-	-	-	<u>640</u>	<u>640</u>
Total liabilities	<u>21,712</u>	<u>342</u>	<u>342</u>	<u>1,002</u>	<u>23,398</u>
Fund Balances:					
Reserved:					
Perpetual care and endowment	-	-	-	104,886	104,886
Unreserved; undesignated	177,327	13,411	145,155	-	335,893
Unreserved; undesignated- reported in nonmajor:					
Special revenue funds	-	-	-	<u>5,169</u>	<u>5,169</u>
Total fund balances	<u>177,327</u>	<u>13,411</u>	<u>145,155</u>	<u>110,055</u>	<u>445,948</u>
Total liabilities and fund balances	<u>\$ 199,039</u>	<u>\$ 13,753</u>	<u>\$ 145,497</u>	<u>\$ 111,057</u>	<u>\$ 469,346</u>

Village of Stockbridge
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets
of Governmental Activities on the Statement of Net Assets
February 29, 2008

Total Fund Balances - Governmental Funds	\$	445,948
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Amounts reported for governmental activities in the Statement
of Net Assets are different because:

Capital assets used in governmental activities are not financial
resources and are not reported in the funds.

The cost of the capital assets is

\$ 2,197,879

Accumulated depreciation is

(677,009)

1,520,870

Internal service funds are used by management to charge the costs of certain
equipment usage and administrative costs to individual governmental funds.
The assets and liabilities of the internal service funds are included in governmental
activities in the Statement of Net Assets.

Net assets of governmental activities accounted for in the internal service fund

79,757

Long-term liabilities not due and payable in the current period
and not reported in the funds.

Bonds payable

(145,000)

Lease payable

(12,769)

Accrued interest

(1,962)

Total Net Assets - Governmental Activities

\$ 1,886,844

Village of Stockbridge
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended February 29, 2008

	General	Major Street	Local Street	Other Nonmajor Governmental Funds	Total
Revenues:					
Taxes	\$ 287,058	\$ -	\$ 53,074	\$ -	\$ 340,132
Licenses and permits	1,783	-	-	-	1,783
Intergovernmental	118,947	54,914	22,093	-	195,954
Charges for services	45,986	-	-	42,725	88,711
Other	<u>50,029</u>	<u>1,162</u>	<u>1,767</u>	<u>3,950</u>	<u>56,908</u>
Total revenues	<u>503,803</u>	<u>56,076</u>	<u>76,934</u>	<u>46,675</u>	<u>683,488</u>
Expenditures:					
Legislative	46,584	-	-	-	46,584
General government	174,710	-	-	54,422	229,132
Public safety	206,474	-	-	-	206,474
Public works	57,756	69,636	51,294	-	178,686
Culture and recreation	28,533	-	-	-	28,533
Debt service:					
Principal payments	-	-	-	25,000	25,000
Interest and fiscal charges	-	-	-	9,279	9,279
Other	<u>18,407</u>	<u>-</u>	<u>-</u>	<u>500</u>	<u>18,907</u>
Total expenditures	<u>532,464</u>	<u>69,636</u>	<u>51,294</u>	<u>89,201</u>	<u>742,595</u>
Revenues Over (Under) Expenditures	<u>(28,661)</u>	<u>(13,560)</u>	<u>25,640</u>	<u>(42,526)</u>	<u>(59,107)</u>
Other Financing Sources (Uses):					
Operating transfers in	-	-	-	43,648	43,648
Operating transfers out	<u>(9,500)</u>	<u>-</u>	<u>-</u>	<u>(869)</u>	<u>(10,369)</u>
Total other financing sources (uses)	<u>(9,500)</u>	<u>-</u>	<u>-</u>	<u>42,779</u>	<u>33,279</u>
Net Changes in Fund Balances	<u>(38,161)</u>	<u>(13,560)</u>	<u>25,640</u>	<u>253</u>	<u>(25,828)</u>
Fund Balances - Beginning of Year	<u>215,488</u>	<u>26,971</u>	<u>119,515</u>	<u>109,802</u>	<u>471,776</u>
Fund Balances - End of Year	<u>\$ 177,327</u>	<u>\$ 13,411</u>	<u>\$ 145,155</u>	<u>\$ 110,055</u>	<u>\$ 445,948</u>

See Notes to Financial Statements

Village of Stockbridge
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
Governmental Funds
Year Ended February 29, 2008

Net Change in Fund Balances - Total Governmental Funds \$ (25,828)

Amounts reported for governmental activities in the Statement
of Activities are different because:

Governmental funds report capital outlays as expenditures; in the
Statement of Activities, these costs are allocated over their estimated
useful lives as depreciation.

Depreciation expense	\$ (37,629)	
Capital outlay	<u>19,212</u>	(18,417)

Bond proceeds and other debt issued are reported as financing sources in
governmental funds and thus contribute to the change in fund balance. In the
Statement of Net Assets, however, issuing debt increases long-term liabilities
and does not affect the Statement of Activities. Similarly, repayment of principal
is an expenditure in the governmental funds but reduces the liability in the
Statement of Net Assets.

Debt issued for capital acquisitions		(13,361)
Repayment to bond holders		20,000
Repayment to financial institutions		592

An internal service fund is used by management to charge the costs of
certain equipment usage to individual governmental funds. The net revenue
(expense) of the fund attributable to those funds is reported with
governmental activities.

Net income from governmental activities in the internal service fund		(6,568)
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Some expenses reported in the Statement of Activities do not require the use
of current financial resources and therefore are not reported as expenditures
in the funds.

Decrease in accrued interest payable on bonds		<u>75</u>
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Change in Net Assets of Governmental Activities \$ (43,507)

Village of Stockbridge
Statement of Net Assets
Proprietary Funds
February 29, 2008

	Business-Type Activities				Governmental Activities
	Enterprise Funds				Internal Service Fund
	Water	Sewer	Building Department	Total	
Assets:					
Current assets:					
Cash	\$ (81,078)	\$ 37,960	\$ (2,003)	\$ (45,121)	\$ 14,579
Accounts receivable	40,795	82,491	-	123,286	-
Due from other funds	<u>63,189</u>	<u>-</u>	<u>-</u>	<u>63,189</u>	<u>-</u>
Total current assets	<u>22,906</u>	<u>120,451</u>	<u>(2,003)</u>	<u>141,354</u>	<u>14,579</u>
Restricted assets:					
Cash	<u>35,335</u>	<u>98,523</u>	<u>-</u>	<u>133,858</u>	<u>-</u>
Property, plant and equipment:					
Land	-	79,111	-	79,111	-
Main and accessories	-	3,135,896	-	3,135,896	-
Machinery and equipment	-	18,686	-	18,686	267,997
Improvements	-	3,057,824	-	3,057,824	-
Water system	1,241,109	-	-	1,241,109	-
Less accumulated depreciation	<u>(394,584)</u>	<u>(1,579,954)</u>	<u>-</u>	<u>(1,974,538)</u>	<u>(168,039)</u>
Total property, plant and equipment	<u>846,525</u>	<u>4,711,563</u>	<u>-</u>	<u>5,558,088</u>	<u>99,958</u>
Total assets	<u>904,766</u>	<u>4,930,537</u>	<u>(2,003)</u>	<u>5,833,300</u>	<u>114,537</u>
Liabilities:					
Current liabilities:					
Accounts payable	16,203	4,320	11	20,534	1,937
Accrued expenses	2,016	2,173	-	4,189	-
Current portion of long-term debt	-	205,000	-	205,000	19,360
Accrued interest	3,282	30,668	-	33,950	-
Due to other funds	<u>40,000</u>	<u>63,189</u>	<u>-</u>	<u>103,189</u>	<u>-</u>
Total current liabilities	<u>61,501</u>	<u>305,350</u>	<u>11</u>	<u>366,862</u>	<u>21,297</u>
Noncurrent liabilities:					
SRF loan payable	345,000	2,108,445	-	2,453,445	-
Bonds payable	40,000	340,000	-	380,000	-
Lease payable	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,483</u>
Total noncurrent liabilities	<u>385,000</u>	<u>2,448,445</u>	<u>-</u>	<u>2,833,445</u>	<u>13,483</u>
Total liabilities	<u>446,501</u>	<u>2,753,795</u>	<u>11</u>	<u>3,200,307</u>	<u>34,780</u>
Net Assets:					
Invested in capital assets, net of related debt	458,243	2,027,450	-	2,485,693	67,115
Unrestricted	<u>22</u>	<u>149,292</u>	<u>(2,014)</u>	<u>147,300</u>	<u>12,642</u>
Total net assets	<u>\$ 458,265</u>	<u>\$ 2,176,742</u>	<u>\$ (2,014)</u>	<u>\$ 2,632,993</u>	<u>\$ 79,757</u>

See Notes to Financial Statements.

Village of Stockbridge
Statement of Revenues, Expenses
and Changes in Net Assets
Proprietary Funds
Year Ended June, 2008

					Governmental Activities
					Internal Service Funds
	Water	Sewer	Building Department	Totals	
Operating Revenues:					
Charges for services	\$ 183,972	\$ 350,575	\$ -	\$ 534,547	\$ -
Licenses and permits	-	-	685	685	
Rental income	-	-	-	-	52,500
Other	-	54,500	250	54,750	-
Total operating revenues	<u>183,972</u>	<u>405,075</u>	<u>935</u>	<u>589,982</u>	<u>52,500</u>
Operating Expenses:					
Administration	73,404	64,942	1,675	140,021	60,058
Operation and maintenance	-	373,552	1,274	374,826	-
Production	20,900	-	-	20,900	-
Water treatment	29,773	-	-	29,773	-
Distribution	<u>84,708</u>	<u>-</u>	<u>-</u>	<u>84,708</u>	<u>-</u>
Total operating expenses	<u>208,785</u>	<u>438,494</u>	<u>2,949</u>	<u>650,228</u>	<u>60,058</u>
Operating Income (Loss)	<u>(24,813)</u>	<u>(33,419)</u>	<u>(2,014)</u>	<u>(60,246)</u>	<u>(7,568)</u>
Nonoperating Revenues (Expenses):					
Interest income	-	2,369	-	2,369	-
Interest expense	(3,077)	(73,691)	-	(76,768)	-
Other income (expense)	-	-	-	-	1,000
Total nonoperating revenues (expenses)	<u>(3,077)</u>	<u>(71,322)</u>	<u>-</u>	<u>(74,399)</u>	<u>1,000</u>
Net Income (Loss) Before Transfers	(27,890)	(104,741)	(2,014)	(134,645)	(6,568)
Transfers in From Other Funds	<u>16,500</u>	<u>-</u>	<u>-</u>	<u>16,500</u>	<u>-</u>
Net Income (Loss)	(11,390)	(104,741)	(2,014)	(118,145)	(6,568)
Net Assets - Beginning of Year	<u>469,655</u>	<u>2,281,483</u>	<u>-</u>	<u>2,751,138</u>	<u>86,325</u>
Net Assets - End of Year	<u>\$ 458,265</u>	<u>\$ 2,176,742</u>	<u>\$ (2,014)</u>	<u>\$ 2,632,993</u>	<u>\$ 79,757</u>

See Notes to Financial Statements.

Village of Stockbridge
Statement of Cash Flows
Proprietary Funds
Year Ended February 29, 2008

	Business-type Activities				Governmental
	Enterprise Funds				Activities -
	<u>Water</u>	<u>Sewer</u>	<u>Building</u>	<u>Total</u>	<u>Internal Service Funds</u>
Cash Flows From Operating Activities:					
Cash received from customers, residents and users	\$ 172,011	\$ 388,415	\$ 935	\$ 560,361	\$ 52,500
Payments to suppliers and employees	(218,158)	(262,366)	(2,938)	(483,462)	(40,396)
Other	-	-	-	-	1,000
Net cash provided by (used in) operating activities	(46,147)	124,049	(2,003)	75,899	13,102
Cash Flows From Noncapital Financing Activities:					
Transfers in	16,500	-	-	16,500	-
Cash Flows From Capital and Related Financing Activities:					
Proceeds from borrowing	-	42,874	-	42,874	-
Advance from other funds	-	63,189	-	63,189	-
Purchase of capital assets, net	-	-	-	-	(17,205)
Principal and interest on capital debt	(28,918)	(250,487)	-	(279,405)	(18,298)
Net cash used by capital and related financing activities	(28,918)	(144,424)	-	(173,342)	(35,503)
Cash Flows From Investing Activities:					
Other nonoperating income received	-	-	-	-	-
Interest income received	-	-	-	-	-
Net cash provided by investing activities	-	-	-	-	-
Net Increase (Decrease) in Cash and Cash Equivalents	(58,565)	(20,375)	(2,003)	(80,943)	(22,401)
Cash and Cash Equivalents - Beginning of Year	(22,513)	58,335	-	35,822	36,980
Cash and Cash Equivalents - End of Year	\$ (81,078)	\$ 37,960	\$ (2,003)	\$ (45,121)	\$ 14,579
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:					
Operating income (loss)	\$ (24,813)	\$ (33,419)	\$ (2,014)	(60,246)	\$ (6,568)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation and amortization	34,138	213,822	-	247,960	18,303
Changes in:					
Accounts receivable	(11,961)	(18,680)	-	(30,641)	-
Accounts payable	(43,167)	(37,765)	11	(80,921)	1,367
Accrued expenses	(344)	71	-	(273)	-
Net Cash Provided by (Used in) Operating Activities	\$ (46,147)	\$ 124,049	\$ (2,003)	\$ 75,899	\$ 13,102

See Notes to Financial Statements.

Village of Stockbridge
Notes to Financial Statements

1. Summary of Significant Accounting Policies

Description of Village Operations

The Village of Stockbridge, Michigan, was incorporated under the provisions of Act of 1895, as amended (General Law Village). The Village operates under a Council form of government and provides various services to its residents in many areas including law enforcement, administration of justice, community enrichment and development and human services. The criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity's financial statements include oversight responsibility, scope of public service, and special financial relationships. Education services are provided through the local school system, which is a separate governmental entity and, therefore, is not represented in the financial statements included herein.

Reporting Entity

Generally accepted accounting principles require the reporting entity to include the Village of Stockbridge (the primary government) and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the combined financial statements to emphasize that they are legally separate from the primary government. These financial statements present the following component units:

Discretely Presented Component Units

Downtown Development Authority - The Downtown Development Authority (DDA) was formed to enhance the Village's business district by preservation, creation and implementation of the development plans in the district to be financed by taxes from properties within its district.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Village of Stockbridge
Notes to Financial Statements

1. Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-Wide Statements - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water and sewer funds and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Fund-Based Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, claims, and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Village of Stockbridge
Notes to Financial Statements

1. Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

The government reports the following major governmental funds:

General Fund – This fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Major Street Fund – This fund is a special revenue fund. It accounts for revenues received primarily from the State of Michigan Department of Transportation and accounts for street activity relating to the major street functions of the Village.

Local Street Fund – This fund is a special revenue fund. It accounts for revenues received primarily from the State of Michigan Department of Transportation and accounts for street activity relating to the local street functions of the Village.

The government reports the following major proprietary funds:

Water Fund – The Water Fund accounts for the activities of the government's water production, purification, and distribution systems.

Sewer Fund – The Sewer Fund accounts for the activities of the government's sewage collection and treatment systems.

Additionally, the government reports the following fund types:

Special Revenue Funds – These funds account for revenue sources that are legally restricted to expenditures for specific purposes (not including major capital projects).

Permanent Funds – These funds account for resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the government's programs.

Internal Service Funds – The internal service funds account for operations that provide services (equipment rental) to other departments of the Village on a cost-reimbursement basis.

Additional Financial Statement Presentation Information - Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Village does not follow subsequent private-sector guidance.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water, sewer, and building department enterprise funds and of the government's internal service fund are charges to customers for sales and services. The enterprise funds also recognize as operating revenues the portion of fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

Village of Stockbridge
Notes to Financial Statements

1. Summary of Significant Accounting Policies (Continued)

Deposits and Investments – Cash and cash equivalents include cash on hand, demand deposits, and certificates of deposit.

The Village reports its investments (when applicable) in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under these standards, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the Village intends to hold the investment until maturity. Accordingly, investments in bankers' acceptances and commercial paper are recorded at amortized cost. The Village had no investments at February 29, 2008.

State statutes authorize the Village to invest in bonds, and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The Village is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above. The government's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the government to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers' acceptances, and mutual funds composed of otherwise legal investments.

Investments are reported at fair value.

Receivables and Payables – All receivables are reported at their net value. They are reduced, where appropriate, by the estimated portion that is expected to be uncollectible.

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Prepaid Items – Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets – Certain proceeds of the enterprise funds' revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. Also, certain resources have been set aside to fund capital asset replacements.

Village of Stockbridge
Notes to Financial Statements

1. Summary of Significant Accounting Policies (Continued)

Capital Assets – Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	50
Vehicles	5 - 12
Equipment	5 - 20
Infrastructure	15 - 50
Systems and improvements	10 - 50

Compensated Absences – It is the government's policy to permit employees to accumulate earned but unused sick pay benefits. Sick days are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if the obligation is expected to be liquidated from expendable available financial resources. The Village has determined that the amount of accumulated sick days is immaterial and is not recorded in the government-wide financial statements.

Long-Term Obligations – In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Village of Stockbridge
Notes to Financial Statements

1. Summary of Significant Accounting Policies (Continued)

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Property Taxes - The government's property taxes are levied each July 1 on the taxable valuation of property located in the Village as of the preceding December 31, the lien date. Property taxes are payable without penalty and interest through August 31; as of March 1 of the succeeding year, unpaid real property taxes are sold to and collected by Ingham County.

Assessed values as established annually by the government, and subject to acceptance by the County, are equalized by the State at an estimated 50% of current market value. Real and personal property in the Village for 2007 had a taxable value of approximately \$33,800,000 (not including properties subject to Industrial Facilities Tax exemption), representing 50% of estimated current market value. The government's general operating tax rate for fiscal year 2007-08 was 10.74 mills for general operations and 2.00 mills for local street.

Property taxes for the DDA are derived from a tax increment financing agreement between the DDA and other related taxing districts. Under this arrangement, the DDA receives those property taxes levied on the increment of current taxable valuations (determined as of the preceding December 31, the lien date) over base year assessed valuations on certain property located in the Village of Stockbridge, which are within the DDA district. Property taxes are recognized in the fiscal year in which they are levied.

2. Stewardship, Compliance and Accountability

The general and special revenue funds are the governmental fund types under formal budgetary control. The Village adopts its budget in accordance with Public Act 621, the Uniform Budgeting and Accounting Act, which mandates an annual budget process and annual appropriation act to implement the budget.

- 1) A general and special revenue funds budget is presented to Village Council in January, at which time hearings on the budget are scheduled. A Public Hearing is held in February and a special meeting is held to give all elected officials the opportunity to discuss their budget with the Council.
- 2) The budget, and an appropriation ordinance implementing it, is then adopted in February.
- 3) Formal budget integration is employed as a management control device during the year for all funds.
- 4) Budgets presented for the general and special revenue funds were prepared on the modified cash basis of accounting. Encumbrances are not recorded at year end.
- 5) Expenditures may not legally exceed activity (department) totals in the general fund. All other special revenue funds cannot legally exceed their respective fund totals.
- 6) Budgets for the current year are carefully reviewed during the year for any revision of estimates. Proposed increases or reductions in appropriations are presented to the Council for their action. The legislative body amends the general appropriation act as soon as it becomes apparent this action is necessary.

Village of Stockbridge
Notes to Financial Statements

2. Stewardship, Compliance and Accountability (Continued)

- 7) The Council has the authority to amend all budgets at the fund level through the appropriation ordinance. It further has the right to amend the general fund at the activity level if it desires. Management has no authority to amend budgets at the fund level. Management can do transfers within funds at the departmental level without governing board approval but not between departments.
- 8) The budgetary information presented has been amended during the year by an official action of the Village Council. The amendments were not significant in total.
- 9) All budget appropriations lapse at the end of each fund's fiscal year.

3. Cash and Cash Equivalents

To facilitate better management of the Village's resources, cash is combined in a pooled operating account for much of the Village's activity.

At year-end, the Village's deposits were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Proprietary Funds</u>	<u>Total Primary Government</u>	<u>Component Unit</u>	<u>Total</u>
Cash and investments	\$ <u>385,088</u>	\$ <u>88,737</u>	\$ <u>473,825</u>	\$ <u>258,766</u>	\$ <u>732,591</u>

The breakdown between deposits and investments for the Village are as follows:

Deposits (checking and savings accounts, certificates of deposit)	\$ 732,441
Petty cash and cash on hand	<u>150</u>
Total	\$ <u>732,591</u>

Custodial Credit Risk – Deposits – Custodial credit risk is the risk that in the event of a bank failure, the Village's deposits may not be returned. The Village has not adopted and State law does not require a policy for deposit custodial credit risk. As of year end, \$536,864 of the Village's bank balance of \$736,864 was exposed to custodial credit risk because it was uninsured and uncollateralized.

4. Receivables

Receivables of the governmental activities of the primary government at year end, consist of the following:

Other governmental units (primarily the State of Michigan)	\$ 49,598
Other	<u>9,239</u>
	\$ <u>58,837</u>

Village of Stockbridge
Notes to Financial Statements

5. Capital Assets

Capital assets activity for the year ended February 29, 2008 was as follows:

Primary Government	Beginning Balance	Additions	Disposals	Ending Balance
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 304,778	\$ -	\$ -	\$ 304,778
Total capital assets not being depreciated	<u>304,778</u>	<u>-</u>	<u>-</u>	<u>304,778</u>
Capital assets being depreciated:				
Buildings and improvements	78,244	-	-	78,244
Equipment and vehicles	322,189	35,581	5,015	352,755
Infrastructure	<u>1,730,098</u>	<u>-</u>	<u>-</u>	<u>1,730,098</u>
Total capital assets being depreciated	<u>2,130,531</u>	<u>35,581</u>	<u>5,015</u>	<u>2,161,097</u>
Accumulated depreciation:				
Buildings and improvements	64,765	1,100	-	65,865
Equipment and vehicles	216,409	21,421	1,195	238,635
Infrastructure	<u>507,945</u>	<u>34,602</u>	<u>-</u>	<u>542,547</u>
Total accumulated depreciation	<u>789,119</u>	<u>57,123</u>	<u>1,195</u>	<u>847,437</u>
Total capital assets being depreciated - net	<u>1,341,412</u>	<u>(21,542)</u>	<u>3,820</u>	<u>1,316,050</u>
Governmental activities capital assets - net	<u>\$1,546,190</u>	<u>\$ (21,542)</u>	<u>\$ 3,820</u>	<u>\$ 1,620,828</u>
Business-Type Activities				
Capital assets not being depreciated:				
Land	\$ 79,111	\$ -	\$ -	\$ 79,111
Construction in progress	<u>365,523</u>	<u>-</u>	<u>365,523</u>	<u>-</u>
Total capital assets not being depreciated	<u>444,634</u>	<u>-</u>	<u>365,523</u>	<u>79,111</u>
Capital assets being depreciated:				
Systems and improvements	7,070,364	365,523	-	7,435,887
Machinery and equipment	<u>18,686</u>	<u>-</u>	<u>1,058</u>	<u>18,686</u>
Total capital assets being depreciated	<u>7,089,050</u>	<u>365,523</u>	<u>1,058</u>	<u>7,453,515</u>
Accumulated depreciation	<u>1,727,637</u>	<u>247,959</u>	<u>1,058</u>	<u>1,974,538</u>
Total capital assets being depreciated - net	<u>5,361,413</u>	<u>117,564</u>	<u>-</u>	<u>5,478,977</u>
Business-type activities capital assets - net	<u>\$5,806,047</u>	<u>\$ 117,564</u>	<u>\$ 365,523</u>	<u>\$5,558,088</u>

Village of Stockbridge
Notes to Financial Statements

5. Capital Assets (Continued)

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:	
General government	\$ 3,027
Public works	34,602
Capital assets held by the Village's internal service funds are charged to the various functions based on their usage of the assets	<u>19,494</u>
Total depreciation expense – governmental activities	<u>\$ 57,123</u>
 Business-Type Activities:	
Sewer	\$ 213,821
Water	<u>34,138</u>
Total depreciation expense – business-type activities	<u>\$ 247,959</u>

6. Interfund Receivables, Payables and Transfers

The Village reports interfund balances between many of its funds. The sum of all balances presented in the tables below agrees with the sum of interfund balances presented in the statements of net assets/balance sheet for governmental funds and proprietary funds. These interfund balances resulted primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

	<u>Receivable</u>	<u>Payable</u>
Due from/to other funds:		
General Fund	\$ 40,000	\$ -
Sewer Fund	-	63,189
Water Fund	<u>63,189</u>	<u>40,000</u>
	<u>\$ 40,000</u>	<u>\$ 40,000</u>
	<u>Transfers In</u>	<u>Transfers Out</u>
Transfers:		
Cemetery Fund	\$ 8,869	\$ -
Water Fund	16,500	-
1992 Debt Fund	34,779	
General Fund	-	9,500
Cemetery Perpetual Care Fund	-	869
Component Unit (DDA)	<u>-</u>	<u>49,779</u>
	<u>\$ 60,148</u>	<u>\$ 60,148</u>

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Village of Stockbridge
Notes to Financial Statements

7. Long-Term Debt

The Village issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the Village.

Governmental activities - long-term obligation activity can be summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Governmental Activities:					
Installment purchase					
Agreements	\$ 51,141	13,361	18,890	45,612	\$ 21,806
Bonds	<u>170,000</u>	<u>-</u>	<u>25,000</u>	<u>145,000</u>	<u>25,000</u>
Bonds	<u>\$ 221,141</u>	<u>\$ 13,361</u>	<u>\$ 43,890</u>	<u>\$ 190,612</u>	<u>\$ 46,806</u>

The following is a summary of the general obligation debt outstanding of the Village as of February 29, 2008:

<u>Governmental Activities</u>	<u>Interest Rate</u>	<u>Maturing Through</u>	<u>Principal Outstanding</u>
General Obligation Bonds – Downtown Development Authority Limited Tax General Obligation Downtown Development Bonds, Series 1992	6.164 -6.250	2012	\$ 145,000
Installment purchase John Deere Credit - Backhoe	5.25	2010	26,278
Installment purchase Computers	4.90	2013	12,769
Installment purchase Ford Motor Lease – Police vehicle	6.65	2009	<u>6,565</u>
			<u>\$ 190,612</u>

Annual debt service requirements to maturity on the above governmental bond obligations are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 46,806	\$ 10,664	\$ 57,470
2010	41,054	7,870	48,924
2011	32,700	5,311	38,011
2012	32,855	3,309	36,164
2013	<u>37,197</u>	<u>1,141</u>	<u>38,338</u>
Total	<u>\$ 190,612</u>	<u>\$ 28,295</u>	<u>\$ 218,907</u>

Village of Stockbridge
Notes to Financial Statements

7. Long-Term Debt (Continued)

Business-type activities - long-term obligation activity can be summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Business-Type Activities: Bonds	<u>\$3,132,381</u>	<u>\$ 106,064</u>	<u>\$ (200,000)</u>	<u>\$3,038,445</u>	<u>\$ 205,000</u>

<u>Business-Type Activities</u>	<u>Interest Rate</u>	<u>Maturing Through</u>	<u>Principal Outstanding</u>
1989 MI Municipal Revenue Refunding	7.50 - 7.55	2013	\$ 55,000
1989 MI Municipal Revenue Refunding	7.50	2008	20,000
2005 Special Assessment Bonds	3.75 - 4.00	2015	320,000
MI Revolving Loan Fund Program	2.125	2026	330,000
MI Revolving Loan Fund Program	2.500	2023	<u>2,313,445</u>
			<u>\$3,038,445</u>

Annual debt service requirements to maturity on the above business-type bond obligations are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 205,000	\$ 80,909	\$ 285,909
2010	190,000	74,651	264,651
2011	190,000	69,217	259,217
2012	195,000	63,773	258,773
2013	195,000	58,094	253,094
2014-2018	910,000	208,775	1,118,775
2019-2023	905,000	96,243	1,001,243
2024-2027	<u>248,445</u>	<u>7,611</u>	<u>256,056</u>
Total	<u>\$3,038,445</u>	<u>\$ 659,273</u>	<u>\$3,697,718</u>

8. Retirement System

Description of Plan and Plan Assets

The Village participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all employees of the Village. The system provides retirement, disability and death benefits to plan members and their beneficiaries.

MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, Michigan 48917.

Village of Stockbridge
Notes to Financial Statements

8. Retirement System (Continued)

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by the Village's personnel policy and requires a contribution from the employees of 5% of gross wages. The Village is required to contribute at an actuarially determined rate.

Annual Pension Cost

For the year ended February 29, 2008, the Village's annual pension cost of \$60,783 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2006, using the entry age normal cost method and the employer contribution amounts which are developed as a level percentage of payroll. Significant actuarial assumptions used include; 8% investment rate of return and projected salary increases of 4.5% per year. Both were determined using techniques that smooth the effects of short-term volatility over a four year period. The unfunded actuarial liability is being amortized as a level percent of payroll on a closed basis. The remaining amortization period is 30 years.

Three-Year Trend Information as of December 31 follows:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Annual Pension Cost	\$ 44,529	\$ 24,992	\$ 14,945
Percentage of APC Contributed	100%	100%	100%
Net Pension Obligation	0	0	0
Actuarial Value of Assets	214,198	181,159	167,755
Actuarial Accrued Liability	420,127	497,878	471,475
Unfunded AAL	205,929	316,719	303,720
Funded Ratio	36%	36%	36%
Covered Payroll	252,001	166,739	143,367
UAAL as a Percentage of Covered Payroll	190%	190%	212%

9. Risk Management

The Village is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the fiscal year, the Village carried commercial insurance to cover all risks of losses. The Village had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years.

10. Contingencies

The Village is subject to legal action as a normal course of business. However, management, with counsel's assistance, vigorously upholds their position on any such action. The ultimate resolution of these matters is not ascertainable at this time. No provision has been made in the financial statements related to these claims.

11. Segment Information – Enterprise Funds

The government issued revenue bonds to finance certain improvements to its water and sewer distribution and treatment systems. Because the Water and Sewer Funds, which are individual funds that account entirely for the government's water distribution and treatment and sewage disposal and treatment activities, are segments, and are reported as major funds in the fund financial statements, segment disclosures herein are not required.

Required Supplemental Information

Village of Stockbridge
Statement of Revenues, Expenditures and Changes
in Fund Balances - Budget to Actual
General Fund and Major Special Revenue Funds
Year Ended February 29, 2008

	General Fund			Major Street Fund			Local Street Fund		
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
Revenues:									
Taxes	\$ 361,134	\$ 369,051	\$ 287,058	\$ -	\$ -	\$ -	\$ 66,625	\$ 68,350	\$ 53,074
Licenses and permits	4,000	1,758	1,783	-	-	-	-	-	-
Intergovernmental	116,127	120,649	118,947	50,000	50,000	54,914	20,000	20,000	22,093
Charges for services	37,750	41,284	45,986	-	-	-	-	-	-
Other	81,537	54,285	50,029	1,000	1,000	1,162	1,400	1,700	1,767
Total revenues	600,548	587,027	503,803	51,000	51,000	56,076	88,025	90,050	76,934
Expenditures:									
Current operations:									
Legislative	43,740	62,706	46,584	-	-	-	-	-	-
General government	216,066	246,860	174,710	-	-	-	-	-	-
Public safety	215,643	198,724	206,474	-	-	-	-	-	-
Public works	59,250	60,573	57,756	48,251	95,466	69,636	57,604	65,752	51,294
Culture and recreation	20,668	20,126	28,533	-	-	-	-	-	-
Other	45,181	43,747	18,407	-	-	-	-	-	-
Total expenditures	600,548	632,726	532,464	48,251	95,466	69,636	57,604	65,752	51,294
Revenues Over (Under) Expenditures	-	(45,699)	(28,661)	2,749	(44,466)	(13,560)	30,421	24,298	25,640
Other Financing Sources (Uses):									
Operating transfers in	-	-	-	-	20,000	-	-	-	-
Operating transfers out	-	(27,515)	(9,500)	-	-	-	-	-	-
Total other financing sources (uses)	-	(27,515)	(9,500)	-	20,000	-	-	-	-
Net Changes in Fund Balances	-	(73,214)	(38,161)	2,749	(24,466)	(13,560)	30,421	24,298	25,640
Fund Balances - Beginning of Year	215,488	215,488	215,488	26,971	26,971	26,971	119,515	119,515	119,515
Fund Balances - End of Year	\$ 215,488	\$ 142,274	\$ 177,327	\$ 29,720	\$ 2,505	\$ 13,411	\$ 149,936	\$ 143,813	\$ 145,156

Other Supplemental Information

Village of Stockbridge
Combining Balance Sheet
Nonmajor Governmental Funds
February 29, 2008

	<u>Special Revenue Funds</u>			<u>Permanent Funds</u>		<u>Total</u>
	<u>Cemetery Fund</u>	<u>Drug Law Enforcement Fund</u>	<u>1992 Debt Service Fund</u>	<u>Cemetery Flower Fund</u>	<u>Cemetery Perpetual Care Fund</u>	
<u>Assets</u>						
Cash and cash equivalents	\$ 3,643	\$ 2,528	\$ -	\$ 9,913	\$ 94,973	\$ 111,057
Total assets	<u>\$ 3,643</u>	<u>\$ 2,528</u>	<u>\$ -</u>	<u>\$ 9,913</u>	<u>\$ 94,973</u>	<u>\$ 111,057</u>
<u>Liabilities and Fund Balances</u>						
Liabilities:						
Accounts payable	\$ 362	\$ -	\$ -	\$ -	\$ -	\$ 362
Deferred revenue	640	-	-	-	-	640
Total liabilities	<u>1,002</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,002</u>
Fund Balances:						
Reserved for perpetual care and endowment	-	-	-	9,913	94,973	104,886
Unreserved:						
Unreserved; undesignated	2,641	2,528	-	-	-	5,169
Total fund balances	<u>2,641</u>	<u>2,528</u>	<u>-</u>	<u>9,913</u>	<u>94,973</u>	<u>110,055</u>
Total liabilities and fund balances	<u>\$ 3,643</u>	<u>\$ 2,528</u>	<u>\$ -</u>	<u>\$ 9,913</u>	<u>\$ 94,973</u>	<u>\$ 111,057</u>

Village of Stockbridge
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended February 29, 2008

	<u>Special Revenue Funds</u>			<u>Permanent Funds</u>		
	Cemetery	Drug Law	1992 Debt	Cemetery	Cemetery	
	Fund	Enforcement	Service	Flower	Perpetual	
	Fund	Fund	Fund	Fund	Care	Total
Revenues:						
Charges for services	\$ 35,985	\$ 1,815	\$ -	\$ -	\$ 4,925	\$ 42,725
Other:	-	7	-	382	3,561	3,950
Total revenues	<u>35,985</u>	<u>1,822</u>	<u>-</u>	<u>382</u>	<u>8,486</u>	<u>46,675</u>
Expenditures:						
General government	42,581	-	-	140	11,701	54,422
Debt service:						
Principal payments	-	-	25,000	-	-	25,000
Interest and fiscal charges	-	-	9,779	-	-	9,779
Total expenditures	<u>42,581</u>	<u>-</u>	<u>34,779</u>	<u>140</u>	<u>11,701</u>	<u>89,201</u>
Revenues Over (Under) Expenditures	<u>(6,596)</u>	<u>1,822</u>	<u>(34,779)</u>	<u>242</u>	<u>(3,215)</u>	<u>(42,526)</u>
Other Financing Sources (Uses):						
Operating transfers in	8,869	-	34,779	-	-	43,648
Operating transfers out	-	-	-	-	(869)	(869)
Total other financing sources (uses)	<u>8,869</u>	<u>-</u>	<u>34,779</u>	<u>-</u>	<u>(869)</u>	<u>42,779</u>
Changes in Fund Balances	<u>2,273</u>	<u>1,822</u>	<u>-</u>	<u>242</u>	<u>(4,084)</u>	<u>253</u>
Fund Balances - Beginning of Year	<u>368</u>	<u>706</u>	<u>-</u>	<u>9,671</u>	<u>99,057</u>	<u>109,802</u>
Fund Balances - End of Year	<u>\$ 2,641</u>	<u>\$ 2,528</u>	<u>\$ -</u>	<u>\$ 9,913</u>	<u>\$ 94,973</u>	<u>\$ 110,055</u>

Village of Stockbridge
Schedule of Bonded Indebtedness
General Obligation Bonds
February 29, 2008

**Governmental - Limited Tax General Obligation
Bond 1992**

<u>Issue Date</u>	<u>Amount of Issue</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>2/28/2007</u>	<u>2/29/2008</u>	<u>Interest Payable</u>
August 1, 1992	\$ 350,000					
		6.193%	6/1/2007	\$ 20,000		
		6.204%	6/1/2008	25,000	\$ 25,000	\$ 8,241
		6.214%	6/1/2009	25,000	25,000	6,698
		6.227%	6/1/2010	30,000	30,000	4,993
		6.234%	6/1/2011	30,000	30,000	3,125
		6.250%	6/1/2012	35,000	35,000	1,093
				<u>\$ 165,000</u>	<u>\$ 145,000</u>	<u>\$ 24,150</u>

Village of Stockbridge
Schedule of Bonded Indebtedness
Water Fund
February 29, 2008

**Water Supply and Distribution System Revenue Refunding Bond
Series 1989**

<u>Issue Date</u>	<u>Amount of Issue</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>2/28/2007</u>	<u>2/29/2008</u>	<u>Interest Payable</u>
March 23, 1989	\$ 230,000					
		7.500%	11/1/2007	\$ 10,000		
		7.500%	11/1/2008	10,000	\$ 10,000	\$ 4,143
		7.500%	11/1/2009	10,000	10,000	3,393
		7.500%	11/1/2010	10,000	10,000	2,642
		7.550%	11/1/2011	10,000	10,000	1,888
		7.550%	11/1/2012	10,000	10,000	1,133
		7.550%	11/1/2013	5,000	5,000	378
				<u>\$ 65,000</u>	<u>\$ 55,000</u>	<u>\$ 13,577</u>

**Michigan Revolving Loan Fund Program
Series 2006**

<u>Issue Date</u>	<u>Amount of Issue</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>2/28/2007</u>	<u>2/29/2008</u>	<u>Interest Payable</u>
April 25, 2006	\$ 345,000					
		2.125%	4/1/2007	\$ 15,000		
		2.125%	4/1/2008	15,000	\$ 15,000	\$ 7,015
		2.125%	4/1/2009	15,000	15,000	6,696
		2.125%	4/1/2010	15,000	15,000	6,377
		2.125%	4/1/2011	15,000	15,000	6,058
		2.125%	4/1/2012	15,000	15,000	5,739
		2.125%	4/1/2013	15,000	15,000	5,420
		2.125%	4/1/2014	15,000	15,000	5,101
		2.125%	4/1/2015	15,000	15,000	4,782
		2.125%	4/1/2016	15,000	15,000	4,463
		2.125%	4/1/2017	15,000	15,000	4,144
		2.125%	4/1/2018	20,000	20,000	3,825
		2.125%	4/1/2019	20,000	20,000	3,400
		2.125%	4/1/2020	20,000	20,000	2,975
		2.125%	4/1/2021	20,000	20,000	2,550
		2.125%	4/1/2022	20,000	20,000	2,125
		2.125%	4/1/2023	20,000	20,000	1,700
		2.125%	4/1/2024	20,000	20,000	1,275
		2.125%	4/1/2025	20,000	20,000	850
		2.125%	4/1/2026	20,000	20,000	425
				<u>\$ 345,000</u>	<u>\$ 330,000</u>	<u>\$ 74,920</u>

Village of Stockbridge
Schedule of Bonded Indebtedness
Sewer Fund
February 29, 2008

**Michigan Revolving Loan Fund Program
Series 2003**

<u>Issue Date</u>	<u>Amount of Issue</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>2/28/2007</u>	<u>2/29/2008</u>	<u>Interest Payable</u>
September 25, 2003	\$ 2,770,000					
		2.500%	10/1/2007	\$ 115,000	\$ -	\$ -
		2.500%	10/1/2008	120,000	120,000	56,764
		2.500%	10/1/2009	125,000	125,000	53,764
		2.500%	10/1/2010	125,000	125,000	50,639
		2.500%	10/1/2011	130,000	130,000	47,514
		2.500%	10/1/2012	130,000	130,000	44,264
		2.500%	10/1/2013	135,000	135,000	41,015
		2.500%	10/1/2014	140,000	140,000	37,639
		2.500%	10/1/2015	140,000	140,000	34,139
		2.500%	10/1/2016	145,000	145,000	30,640
		2.500%	10/1/2017	150,000	150,000	27,014
		2.500%	10/1/2018	155,000	155,000	23,264
		2.500%	10/1/2019	155,000	155,000	19,390
		2.500%	10/1/2020	160,000	160,000	15,514
		2.500%	10/1/2021	165,000	165,000	11,514
		2.500%	10/1/2022	170,000	170,000	7,390
		2.500%	10/1/2023	125,570	168,445	3,139
				<u>\$ 2,385,570</u>	<u>\$ 2,313,445</u>	<u>\$ 503,603</u>

Village of Stockbridge
Schedule of Bonded Indebtedness
Sewer Fund
February 29, 2008

**Sanitary Sewage Collection and Treatment System Revenue Refunding Bond
Series 1989**

<u>Issue Date</u>	<u>Amount of Issue</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>2/28/2007</u>	<u>2/29/2008</u>	<u>Interest Payable</u>
March 23, 1989	\$ 315,000					
		7.500%	11/1/2007	\$ 25,000		
		7.500%	11/1/2008	20,000	\$ 20,000	\$ 1,500
				<u>\$ 45,000</u>	<u>\$ 20,000</u>	<u>\$ 1,500</u>

**Special Assessment Bonds
Series 2005**

<u>Issue Date</u>	<u>Amount of Issue</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>2/28/2007</u>	<u>2/29/2008</u>	<u>Interest Payable</u>
September 29, 2005	\$ 375,000					
		3.750%	9/1/2007	\$ 15,000	\$ -	
		3.750%	9/1/2008	40,000	40,000	\$ 11,750
		3.750%	9/1/2009	40,000	40,000	10,250
		3.750%	9/1/2010	40,000	40,000	8,750
		4.000%	9/1/2011	40,000	40,000	7,200
		4.000%	9/1/2012	40,000	40,000	5,600
		4.000%	9/1/2013	40,000	40,000	4,000
		4.000%	9/1/2014	40,000	40,000	2,400
		4.000%	9/1/2015	40,000	40,000	800
				<u>\$ 335,000</u>	<u>\$ 320,000</u>	<u>\$ 50,750</u>



To the Village Council
of the Village of Stockbridge

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Village of Stockbridge as of and for the year ended February 29, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Village's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the governmental unit's internal control. Accordingly, we do not express an opinion on the effectiveness of the governmental unit's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control.

- 2008-1: The management of the Village has the ability to produce internal reporting that allows for financial management of the day-to-day operations. However, management relies on the external auditors to prepare its external audit reports. While this may be typical of some smaller municipalities, it is considered a material weakness under SAS 112.
- 2008-2: Due to the limited personnel in the accounting department, the Village lacks segregation of duties over several areas, including cash receipting, journal entry processes, bank reconciliations and cash disbursements. The limited size of the staff does not allow for segregating duties. The Village has made good improvements in this area during the 2007/2008 fiscal year but the cash receipting process still lacks sufficient control. Council should be aware of and attempt to establish procedures to minimize this lack of controls.
- 2008-3: According to the Uniform Budget Manual, a municipality shall adopt a budget prior to the start of the fiscal year. For the year ended February 29, 2008, the budget was not adopted until March 2007.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Of the significant deficiencies described above, we consider Finding 2008-1 to be a material weakness.

This communication is intended solely for the information and use of management, the Village Council and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Willis & Jurasek, P.C.

Willis & Jurasek, P.C.

October 1, 2008



October 1, 2008

To the Village Council
Village of Clarksville

We have audited the financial statements of the governmental activities and each major fund of the Village of Clarksville for the year ended February 29, 2008, and have issued our report thereon dated October 1, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

- 1) As stated in our engagement letter, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.
- 2) As part of our audit, we considered the internal control of the Village of Clarksville. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.
- 3) We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our discussions about planning matters held prior to the audit field work.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Village of Clarksville are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The journal entries provided to management, including some that were material misstatements detected as a result of audit procedures, were corrected by management.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 1, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Village Council and management of the Village of Clarksville and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Willis & Jurasek, P.C.

Willis & Jurasek, P.C.